

January 15, 2009
ENTREPRENEURIAL EDGE

Businesses Find a Silver Lining in Inland California's Downturn

By JAMES FLANIGAN

At the moment, [California](#)'s Inland Empire — the local name for San Bernardino and Riverside Counties east of Los Angeles — would seem an inhospitable place for starting a business.

Unemployment has already reached 9.5 percent, a third higher than the national average. And 350,000 homes have been foreclosed on — one house in three in an area with a population of 4.3 million. Commercial construction and expansions have halted, leaving unfinished projects and vacant buildings. The forecast is that “it will take three years, to 2011-2012, for the area's economy to come back,” said John Husing, an economist whose company, Economics and Politics Inc., issues quarterly reports on the Inland Empire economy.

Yet the area, which had one of the nation's fastest-growing economies in the last decade, has been attracting newcomers and small businesses. One of its advantages, paradoxically, is the result of its economic travails: low real estate prices for both houses and factories. But the other is the concerted support for small enterprises and start-up companies from the area's universities and nonprofit organizations — programs that were set in place long before the current downturn.

That is why energy and hope were evident at a recent gathering of small-business owners at the Inland Empire Center for Entrepreneurship, a part of the College of Business and Public Administration at [California State University](#), San Bernardino.

One of the business owners was Shawn Barker, a student in the master of business administration program who started a company, Virclom Technologies Services, last October to provide tutoring in mathematics and physics to high school and college students. Mr. Barker, who holds a degree in physics from Talladega College in Alabama, records lectures by teachers, adapts them to iPods and other formats and distributes them to students. “Our technology allows students to review the material and reinforces learning,” said Mr. Barker, who is looking to sell the service to school districts.

He also hopes to automate the distribution system so that students can download tutorials from servers. That improvement will cost about \$100,000, he estimated, and Mr. Barker is seeking to attract financing from angel investors or grants from federal and state governments. This is a difficult time to raise capital, Mr. Barker acknowledged, but he has sent descriptions of his company's innovations to members of Congress and feels confident, he said, because “the new administration and Secretary of Education [Arne Duncan](#) are in favor of new approaches.”

Felix Zuniga, who holds a master's degree in business from California State in San Bernardino, started Armada Business Services last September to help independent truck owner-operators cope with many demands of regulation, financing, insurance and

management. The Inland Empire is a major center for freight transportation. Trucks carry cargo containers 60 miles from the ports of Los Angeles and Long Beach to rail terminals in San Bernardino County, where they are transferred to railroad cars for transport to other parts of the United States.

But these are difficult times for truck owners. International trade volumes are down in the recession even as truck owners need to meet new environmental regulations by modifying engines. At the same time, banks and other lenders are pulling back on financing for small-business owners. "Truckers have a high failure rate, an average 14 months from going into business to failing," Mr. Zuniga said. But perhaps adversity can mean opportunity, he said. "It's when times are tough that the owners especially need our help."

More than start-ups find opportunities in the current climate. Gem Power L.L.C. is an eight-year-old company that developed software under research contracts for the [United States Navy](#) to recharge and extend the life of batteries. "We can double or treble the life of any battery, whether for computers or heavy machinery," said John James, Gem Power's president.

The company is now trying for commercial work for its battery-charging systems, marketing to police and fire departments. The commercial effort follows recommendations of a feasibility study by faculty and students at the California State Entrepreneurship Center, which also operates a computer laboratory under a Defense Department program. Like similar efforts to help small business at the nearby University of California, Riverside, the Inland Empire Center for Entrepreneurship ranges beyond academia to get involved in the business community. The center finances its \$2 million annual budget independently, said Michael Stull, an associate professor of business and the director of the center, "by selling consulting and technical assistance services to public agencies." And the center organizes an annual Spirit of Entrepreneurship award ceremony to encourage and publicize local innovators.

One award recipient is OncoNutrition, which has developed a food supplement that helps cancer patients maintain their appetites and nutritional intake while undergoing chemotherapy. The company, based in the city of Riverside, collaborates with the departments of biology and medicine at the university there. It also benefits from the county's relatively low-cost commercial space for its laboratories, said Olof Mollstedt, the co-founder and president.

In the current recession, the Inland Empire's inexpensive real estate is proving in some cases to be an inadvertent asset. Charlie Mello, president of American Custom Coach, for example, has moved his company into a 23,000-square-foot factory in Redlands from a smaller one in nearby Ontario. The larger plant, said Mr. Mello, will allow his company to expand its output of vans that can be fitted out as mobile units for X-rays, mammograms, dental work and blood testing and donations as well as command posts for law enforcement.

"Don't tell me about a recession," said Mr. Mello, an engineer who moved to California from Brazil in 1988. American Custom Coach is busy filling orders for medical vans from Qatar, Kuwait, Abu Dhabi and Dubai in the Middle East and from Angola in southwest Africa. "I'm on my way to Angola," Mr. Mello said late last month. "It is ordering 14 vans."

He said he intended to expand his company's work force from 24 employees to as many as 40 in the next two years.

Giroux Glass, a Los Angeles glass contracting company, recently bought a 40,000-square-foot building in San Bernardino for \$3 million. "I couldn't construct a building for \$3 million," said Anne-Merelie Murrel, president of Giroux. Having seized the opportunity, Ms. Murrel said she planned to move fabrication work into the building, "which can help serve our expanding business in Las Vegas."

Residential real estate is also inexpensive compared with most of Southern California. "Five-bedroom homes are available for \$250,000 in the area," said Ms. Murrel, and Giroux's employees are eager to buy there.

Such employees will be a key to the area's recovery, said Lee Searing, president of Searing Industries, a large maker of welded steel pipe in Rancho Cucamonga. "This area was up so high for so long, it had to plateau," he said. "But a skilled work force wanting to live in the Inland Empire will attract new companies and we'll recover."